

American Banker

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Thursday, June 30, 1988

153rd Year

Today

Salomon Brothers Inc. unveiled an econometric forecasting model intended to assist in secondary-market trading of Third World debt. — 2

Loan pricing for small companies has stabilized, but at levels that continue to ignore borrowers' creditworthiness, a Greenwich Associates survey shows. — 2

CoreStates Financial Corp. — operator of the nation's third largest multistate automated teller machine network — will acquire the leading ATM network in New Hampshire. 2

The New York State Bankers Association has reported improvements in the second year of a program to help high school graduates find jobs. 12

Marine Midland Banks has taken another step toward establishing a mid-Atlantic states franchise by opening an office in northern New Jersey. 14

Columbia Savings and Loan has reached an accord with the Federal Home Loan Bank Board that will allow chief executive officer Thomas Spiegel to keep the \$4.46 million he earned last year. — 14

A rundown of those who became chief executives of financial services companies in April, May, and June. 16

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CONSUMER FINANCIAL SERVICES

The consumer lobby, anticipating victories on some major banking issues in Congress this year, plans to turn its attention to the real estate, securities, and insurance industries. — 3

The Royal Bank of Scotland PLC announced it will launch what it believes is the first voice-activated home banking system in the world. 11

BayBanks Inc., Boston, has a hit with Account Update, which dispenses minisstatements of account status via automated teller machines. 6

A bank's success may lie in hiring an experienced marketer who uses the lessons learned by other retailers, writes Warren L. Halperin. — 6

Kemper Financial Services has created a program designed to teach all of a bank's branch personnel how to become a referral network for the sales staff. — 7

It is when quarterly earnings are less than the best that a bank's marketing professionals should be earning their keep, writes 'Red' Pope in Marketing Management. — 4

Worth Repeating

In the future, we'll be spending less time on banking issues and more time on other types of financial issues.

Stephen Brobeck of the Consumer Federation of America. [Page 3]

Affinity Programs Target Deposits

By DONALD SHOULTZ

NEW YORK — The use of affinity programs to sell deposit products may become the next financial services marketing bandwagon. And at least two institutions have already climbed on.

Indiana National Bank will launch a nationwide affinity deposit program on Friday in conjunction with the American Legion. The Indianapolis-based bank plans to pitch a special money market deposit account to the Legion's nearly three million members.

"Certainly, a program of this magnitude has tremendous strategic potential for Indiana National Bank," said bank president Andrew Paine Jr. in a statement announcing the account.

CONSUMER FINANCIAL SERVICES

AN AMERICAN BANKER WEEKLY FEATURE

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The Indiana National announcement came on the heels of the introduction by Bloomfield Savings and Loan Association, Birmingham, Mich., of the Share in Life certificate — a certificate of deposit targeted to members of religious organizations. When the CD matures, the thrift promises to pay a "goodwill contribution" to the customer's religious group.

"I think we are going to see a great

deal of experimentation in the area in the next year or so," said Edward Furash, president of Furash & Co., the Washington-based consultancy.

"Everyone has been very impressed with the way credit card affinity marketing was so successful," he added. "As a result, I think there is a wide range of experimentation all over the country trying to figure out how to make the same trick work on a new dog."

Affinity group marketing involves tailoring a product with features that will interest consumers who share a common interest. Successful affinity credit card programs, which usually feature lower interest rates and reduced annual fees, have been aimed

Affinity: Page 7 ➡

FSLIC Infusion on Slower Track

Timetable Extended for Floating \$10.8 Billion in Bonds

By JIM McTAGUE
Washington Bureau

WASHINGTON — Thrift regulators plan to take eight years to raise \$10.8 billion on the bond market to recapitalize the insolvent Federal Savings and Loan Insurance Corp.

The news came as a surprise to many in the industry and on Wall Street, where it had generally been anticipated that the last of the bonds would be issued by late 1990. One analyst said the Federal Home Loan Bank Board, the top thrift regulatory agency, was gambling that interest rates would drop.

Last August, Congress authorized the Bank Board to raise the money in no less than three years. The Bank Board chartered the Financing Corp.,

more commonly known as FICO, to issue bonds. Since September, FICO has gone to the market six times and raised \$2.9 billion at an average yield of 9.96%.

Bank Board Chairman M. Danny Wall said the slower pace of bond issuance will save the industry money.

"Yes, we are slowing the rate of FICO borrowing," Mr. Wall said Wednesday. He said FSLIC would continue to use notes, rather than cash, to finance the disposition of troubled S&Ls because "then we don't have to spend 10% interest borrowing from FICO."

Mr. Wall said the notes, which are

Timetable: Page 15 ➡

Revision Hinted In Capital Plan

By BARBARA A. REHM
Washington Bureau

WASHINGTON — Federal bank regulators may capitulate to industry demands on at least one risk-based capital proposal and allow banks to support mortgage lending with half the capital that would be required for other types of loans.

Federal Reserve Board Governor H. Robert Heller said on Wednesday that regulators may be ready to back off their long-standing position that by giving mortgage lending preferential treatment over other types of lending, the government is allocating credit.

Mr. Heller also repeated the Fed's long-held position that the new capital standards should apply to both banks and their holding companies. Bank

Regulators: Page 15 ➡

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Salomon Model Forecasts Value Of LDC Debt

By BART FRAUST

NEW YORK — Salomon Brothers Inc. unveiled an econometric forecasting model on Wednesday that the company expects to facilitate secondary-market trading of Third World debt.

The model is intended to help banks and other investors exchange the debt of one developing country for another's.

"Our analytic goal is to create a systematic method for identifying trading opportunities in the cross-border swap market," said John F.H. Purcell and Diego J. Orlanski, corporate bond researchers for Salomon, in a new report.

But some of Salomon's competitors in this market had their doubts about the usefulness of the model. "It's preposterous," said one rival at a New York investment banking firm. "How do you value the asset when you have no idea of what's going to happen to the economy or political conditions or the country's ability to repay?"

The Salomon researchers found that implementing buy/sell transactions derived from the model in the first, second, and third quarters of 1987 would have produced net profits of 27%, 53%, and 28% if held by an investor until the end of first-quarter 1988.

A \$15 billion secondary market has developed in the estimated \$1 trillion in loans that banks have made to Third World nations. Banks and other investors buy and sell the loans to exchange for equity positions in companies in the debtor countries. They also trade the loans for investment purposes as an investor would buy or sell securities.

Kenneth L. Telljohann of Salomon's international loan trading desk said the new model is intended to help banks make judgments about the values of different Third World credits, before trading the loans for investment purposes.

Rescheduling Record Considered

The model comprises five economic variables that, according to Salomon, can predict the likely change in a debtor country's secondary-market price.

Besides looking at the country's per capita income and ratio of external debt to exports, Salomon's model also assigns relative values to the nation's record of rescheduling debt, its ability to service loans, and the availability of debt-for-equity conversions there.

The model penalizes countries that have rescheduled their bank debt during the past five years, if they have failed to make interest payments at any point during the five years, or if no debt-for-equity programs exist there. Many countries, resisting foreign ownership of their companies, severely restrict debt-for-equity swaps. Secondary market prices are higher where these programs exist.

The Salomon researchers conceded that their model cannot anticipate all the uncertainties and nuances surrounding Third World debt. They said that to increase the power of the model, they established "confidence levels" around the predicted price of a debtor country. For example, Brazil's confidence level is between 27.48% and 55.11% of the par value of its outstanding loans. If a country's debt trades within the upper and lower bounds of this confidence level, there is a 95% probability that the issue is fairly priced, they said.

A strategy of buying credits indicated by the model as underpriced and selling those that are overpriced will generate positive returns for investors, Salomon said.

Why Firms Change Banks

Factors considered essential or very important

Weakening financial condition of bank	82%
Inefficient operations services	80
Difficulty negotiating credit terms	75
Refusing to tailor credit terms	74
Price for services too high	66
Lack of personal attention	66
Bank becomes too small	38
Too few cash management services	27
Lack of international capability	20
Bank becomes too big	18

Source: Greenwich Associates survey of 15,888 companies with revenues between \$5 million and \$50 million.

Selecting a New Bank

Factors considered essential or very important

Close personal attention to company needs	82%
Low fees and interest rates	82
Skill in lending to similar companies	81
Fairness in negotiating loan structures	78
Reliable lender over time	73
Commitment to serving business locally	57
Expertise in local and regional markets	54
Outstanding senior bankers	52
Willingness to work on advisory basis	47
No conflict of interest in dealing with competitors	44

Source: Greenwich Associates survey of 15,888 companies with revenues between \$5 million and \$50 million.

Loan Pricing Stabilizes, Survey Shows

By DAVID NEUSTADT

NEW YORK — Loan pricing for small companies has stabilized, a survey shows, but at levels that continue to ignore borrowers' creditworthiness.

Those findings were among the preliminary conclusions of a survey of 15,888 companies with sales between \$5 million and \$50 million, released today by Greenwich Associates, a market research firm in Greenwich, Conn. A final report and analysis of the survey is due in two weeks.

The average cost of a loan for all the companies in the group was 94 basis points over the prime rate in 1988, the same as in 1987 for a smaller sample of companies. In 1986, loans were made at an average of 99 basis points over prime.

But the averages mask an important trend, a flattening of the difference in prices between the smaller and larger companies within the whole group.

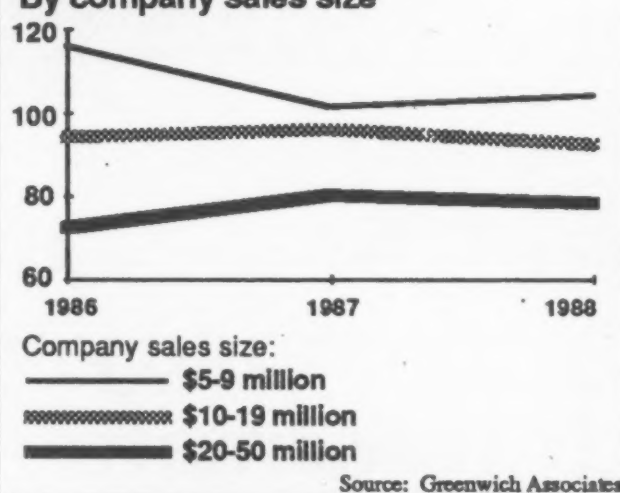
Greenwich divides the sample into three subgroups: companies with sales of \$5 million to \$9 million; those with \$10 million to \$19 million; and those with \$20 million to \$50 million. Generally, the bigger companies pay a lower rate than the smaller ones, reflecting the stronger credit standing of the bigger companies.

But between 1986 and 1987, the difference in credit cost between the bigger companies and the smaller companies dropped more than half, to 21 basis points from 44 basis points. In 1988, it remained little changed at 26 basis points.

"The fact is that there is not a lot of difference in rate for a substantial difference in credit quality between a \$5 million company and a \$45 million company," said Peter Garrison, a Greenwich partner.

Loan Pricing

Average cost of borrowing in basis points over prime rate. By company sales size



"There is continued aggressive pricing in the marketplace," Mr. Garrison said. Since price is one of the easiest factors to change when faced with tough competition, one bank will usually decide to be aggressive on price, he said. That forces other banks either to compete on price or risk losing relationships. Most choose to compete on price.

"That leaves them with a strategic dilemma, how to increase the profitability of the relationship when one element is under price pressure," Mr. Garrison said. "The natural conclusion leads to better cross-selling to existing relationships. However, not all banks are equal in their success in that task."

There is some hope for banks that choose to resist the price pressure, in another of Greenwich's findings. In the list of factors that would make them leave a bank, companies listed high prices fifth, behind the condition of the bank itself, inefficient operations, and two responses about getting loans that

meet their needs.

However, low fees and interest rates were second in the list of criteria used in selecting a new bank. That suggests that price is important in establishing a new relationship, but not as important once the relationship is established.

The top criterion in picking a bank was the institution's personal attention to the company's needs, the survey showed. Since many banks have similar products and policies, "the bank account officer is the important ingredient that breaks the tie," Mr. Garrison said. That is why banks are spending more time and money training account officers, he said.

After personal attention and price, the next three criteria revolve around lending. That reflects the fact that most of these companies are borrowers.

The average company in the group borrows \$1.1 million a year. That ranges from average borrowings of \$2.43 million for companies with revenues of \$20 million to \$50 million to borrowings of \$528,000 for companies with revenues of \$5 million to \$9 million.

The bigger companies maintain short-term investments of \$1.93 million and cash balances of \$1.33 million. The smaller companies had short-term investments of \$487,000 and cash balances of \$374,000.

There is one bit of potentially good news in the latest survey. About 18% of the companies use one or more non-bank financial institutions, down from 25% in 1987. However, the difference may not mean that banks are getting less competition. Instead, it could reflect the fact that the two surveys were conducted in different areas of the country.

CoreStates Buys New Hampshire ATM Network

By YVETTE D. KANTROW

NEW YORK — CoreStates Financial Corp., operator of the Mac automated teller machine network, will acquire Pocketbank Inc., New Hampshire's leading ATM network, the companies announced on Wednesday.

Mac, the nation's third largest regional network, and Pocketbank will consolidate in 1989 under the agreement. For Mac, the acquisition represents its first expansion out of the Middle Atlantic region into New England.

The seven owners of Pocketbank — Amoskeag Bank, BankEast Corp., Bank of New Hampshire Corp., First NH Banks Inc., Indian Head Banks Inc., New Hampshire Savings Bank, and Numerica Financial Savings Bank FSB — will become members of the combined network.

All other Pocketbank participating financial institutions will be encouraged to join Mac by Nov. 1. Technical conversion will not begin before midyear 1989. Purchase price was not disclosed.

The Pocketbank network has 68 participating financial institutions, operating 327 ATMs. It consists of 300,000 Pocketbank cardholders who perform one million transactions per month.

"We have felt for some time that Pocketbank eventually would have to become part of a larger operation," said Philip M. Stone, executive director of the network. As part of

Mac, Mr. Stone expects Pocketbank members to benefit from CoreStates' investments in electronic home banking and small business banking, as well as retail point-of-sale capabilities.

Bonnie E. Hill, a senior vice president of Philadelphia-based CoreStates and manager of Mac, said few changes would be made in Pocketbank and its present management will be retained.

Mac is the nation's largest regional ATM network in terms of interchange transactions, those that flow between banks through a central switch. It has 538 participating financial institutions. The network has 4,566 ATMs in Delaware, Maryland, New Jersey, New York, Pennsylvania, and West Virginia. Approximately 11 million cardholders use ATMs bearing the Mac logo 24 million times a month.

The largest network is the New York Cash Exchange with about 6,000 ATMs, followed by Star System Inc. with about 5,000. The Mac network, which derives its name from Money Access Service, earned its status as the nation's third largest network earlier this year, when it merged with Pittsburgh-based CashStream, Mellon Bank's 194-member regional network.

The deal was characterized as a consolidation rather than an acquisition. Mellon and its eight subsidiary banks officially became Mac members and agreed to endorse and promote Mac membership to the rest of CashStream.

Let a Skilled Marketer Tell Your Earnings Story

By N.W. "RED" POPE

WHEN times are good for our banks, one of the true thrills is writing and releasing the quarterly earnings. We can't wait until the business section includes our financial successes. We hope for bold headlines.

But when times are not so good — as has been the case in recent quarters for many banks, due to lesser-developed-country debt, real estate, energy, agriculture, and assorted lending difficulties — that necessary news release does not present a happy opportunity. It is one of the few times when the PR person at the bank truly hopes the story will be buried in the paper or lost altogether.

However, right is right; so the numbers must be released, with appropriate editorial comment, as those quarters roll around inexorably. How they are released, how the material is put together in prose form, and what management statements are offered, is where the marketing professional earns his or her keep. This is where the bank can make the most of a difficult situation, or at least ease the pain.

Mr. Pope is senior vice president-marketing at the Valley National Bank of Arizona, Phoenix.

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It doesn't take a great writer or adroit publicity to make good numbers glow. Nor should it require a great writer to do something positive with poor numbers, either. But it does require some thinking, and the touch of a professional marketer.

Too often, when the numbers are poor, the press material is prepared razor thin by the finance people. Barebones information is provided. No extraneous or even legitimate support is given, nor are any positives provided. "Just the facts, ma'am," as it were.

The result is a dull but legal litany of numbers. Save for a few analysts who actually enjoy such arithmetical boredom, such a release does no favors for anyone. On the other hand, this approach usually indicates the bank is anxious to get the pain over with. It makes no excuses and sees no silver lining.

Good and Bad Examples

For example, read the following mythical introductory paragraph, written by the number crunchers:

"The First National Bank reports earnings of \$250,000 for the first quarter of 1988, or 25 cents per share, a decline of 11% over first-quarter 1987."

Obviously, the bank's earnings are down and that must be reported. But how dull and deadly must the release be?

Compare that opening shot with this one:

"The First National Bank, largest financial institution in Hooray County with 17 branches and \$1 billion in assets, announced earnings of \$250,000 for the first quarter of 1988, or 25 cents per share."

Following quickly is a positive statement from the CEO:

"These results give our bank a positive start for the year, compared with yearend results for 1987," said Charles Jones, chairman. "A number of loan-related factors that had a negative effect on our performance last year are now behind us, we believe, due to the aggressive actions we have taken. Positive benefits over the balance of 1988 and into the future should occur on the strength of management's actions."

Obviously, the chairman's statement, using words like "strength" and "aggressive" and "positive" — and the tone of his sentences — indicates that the past year was not up to par; but we are assured that management has taken steps to overcome adversity and get things moving upward. That's what the shareholders want to read, and the public finds such comments comforting.

Certainly, the forthcoming performance must show improvement. Otherwise, similar statements in future quarters may be met with some hostility, and the chairman's words could be-

come suspect. At this juncture, however, it is in order to blend the down numbers with the up potential — if it is true.

Finding Grounds for Optimism

There is no question that all the information must be revealed; that occurs in ensuing paragraphs. Diligence is necessary as well as desired. But how things are said, in what context they're said, can make chicken salad out of plain chicken, or something like that.



Pope Says:

How things are said, in what context they're said, can make chicken salad out of plain chicken.

In candor, producing a release that is totally numbers is all that is absolutely required. Such releases tend to be short and, naturally, they get the job done.

But, I contend the bank deserves more, especially if management is getting a grip on the problems that caused the poor performance. Few individual and local shareholders of bank stock may want to sell out, preferring to stick it out and hope for the best. They are looking for good news.

The institutional types that are numbers-oriented, quarter-to-quarter driven, may have no interest in anything but numbers. They'll have their opportunity in the following paragraphs and the attached balance-sheet data. But to those who have a personal involvement, a real feeling of ownership, let them read more than bad statistics.

In essence, marketing people should produce the earnings releases, not the financial people within the bank. Both the legal and the numbers people must sign off on what is written for accuracy, completeness, and adherence to regulatory requirements. But the tone of the piece should be in the hands of those who see beyond statistics and who understand the power of communications.

There is nothing wrong with the chairman stating his disappointment with past results. Or focusing on the problem areas. Nor is there anything wrong with pointing out the strengths, the virtues, and the promising opportunities that are there as well.

Finance, do your job. Then, marketers, do yours.

LETTERS TO THE EDITOR

Management Consultants Can Provide Perspective

To the Editor:

In a letter to the editor, printed June 2, page 5 ["Consultants Not Needed"], Mr. Straight of Higbee Associates faults Pacific Western Bancshares, San Jose, Calif., for retaining management consultants to review the profitability of its product lines. He continues that management should know its costs better than any consultant.

In today's highly competitive banking environment, many banks realize that a fresh and objective look by experienced and knowledgeable management consultants, whose specialty is to help banks identify opportunities to re-

duce expenses and increase revenues, is valuable.

All but the largest banks most often do not have support staff to aid the line executive to plan and cope with change as well as provide in-depth analysis to challenge current ways of doing business.

In this age of specialization, it behooves management to use all resources that are available.

Eugene S. Mann
President

E.S. Mann Associates Inc.
South Orange, N.J.

FLASHBACKS

What made news in the American Banker this week...



40 Years Ago

• The Federal Reserve Board notified the Transamerica Corp. that the California banking giant faced charges that it was exercising a credit monopoly and was in violation of antitrust laws.

20 Years Ago

• The Federal Home Loan Bank Board joined the Federal Reserve Board, the Treasury, and the Federal Deposit Insurance Corp. in opposing a plan by Sen. William Proxmire, D-Wis., to force the Fed to take a more active role in supporting the mortgage market.

10 Years Ago

• Citibank, Midlantic National Bank, and United Jersey Bank were among several banks and retailers in the New York-New Jersey area that agreed to help the Federal Reserve Bank of New York and the U.S. Treasury increase the circulation of \$2 bills in the district.

• Businesswomen applying for credit at commercial banks appeared to be victims of a "pattern of subtle discrimination," according to a White House survey of about 3,000 female entrepreneurs.

• Attorneys for the Bunny's Club filed a \$10 million suit charging two top executives of United American Bank — chairman Jake F. Butcher and vice chairman Mark F. Vorder Bruegge — with conspiring to have the Memphis club's lease canceled. The owner of the building that housed the bank's headquarters and the club had earlier filed a complaint that noise from the club — which opened at 11 a.m. — created a disturbance, and that the topless dancers who worked in the club, and who shared a restroom with the bank's female customers and employees, were using the facilities while allegedly still in their working costumes.

5 Years Ago

• Citing \$13.4 million in overdue loans, three banks and the Federal Deposit Insurance Corp. sued to put Knoxville, Tenn., banker C.H. Butcher Jr. into involuntary bankruptcy.

• Shareholders of the ailing Seafirst Corp., Seattle, approved the merger of their bank holding company with BankAmerica Corp., San Francisco, by a 79% majority.

1 Year Ago

• A House-Senate conference committee dealt the banking industry an unexpected setback by tightening a proposed moratorium on new powers to include curbs on the power of the Office of the Comptroller of the Currency to permit new bank activities. The committee also agreed to close the loophole allowing nonbank institutions to own limited-service banks, and to authorize an \$8.5 billion rescue plan for the insolvent Federal Savings and Loan Insurance Corp.

• The Senate confirmed M. Danny Wall as chairman of the Federal Home Loan Bank Board.

• The Federal Home Loan Bank of New York sent two supervisory bulletins to its 276 member thrifts, calling for tighter controls on securities trading in the wake of significant losses.

• The Federal Reserve Board approved Citicorp's request for its Citicorp Savings unit to acquire 50 Sears Savings Bank branches in California.

• First RepublicBank Corp., Dallas, said it would make a special addition of \$325 million to its reserve for loan losses in the second quarter, including \$275 million against troubled international credits. The company forecast a loss of \$313 million for the quarter but said it expected to make a profit in the second half of the year.

• Brazil suspended payment of principal on \$1.05 billion in debt due to foreign export credit agencies.

• Revised government figures showed that S&Ls lost \$400 million more in 1986 than had previously been reported. During the fourth quarter of the year, according to new numbers released by the Federal Home Loan Bank Board, the nation's thrifts lost \$1.4 billion.

— Domenica Trevor